Who Gained the Most During the 1990's Expansion?

The economic expansion that began in March 1991 has been widely touted as the longest peacetime expansion of the last 50 years. By implication, Americans should be enjoying rising household incomes and expanded economic opportunities. This study examines whether this has happened and how the fruits of the expansion have been shared by Americans of different income levels.

A closer look at the recovery reveals that marked differences existed between the first phase of the expansion, from 1991 to 1993, and the second phase, from 1993 to 1996. During the 1991 to 1993 period, the four lower income groups experienced income *losses.* Only the very rich, who constitute the top 5 percent of the population, benefitted substantially. By contrast, during the 1993 to 1996 period, all groups experienced at least some income growth. Still, it took until 1995 for the incomes of the lower three income groups to surpass their 1991 levels.

The Expansion's Effect on Income Groups

To determine what happened during both phases of the 1990's recovery, the author examines the effects of the expansion between 1991 and 1996 on households in five income groups or quintiles of the total population.

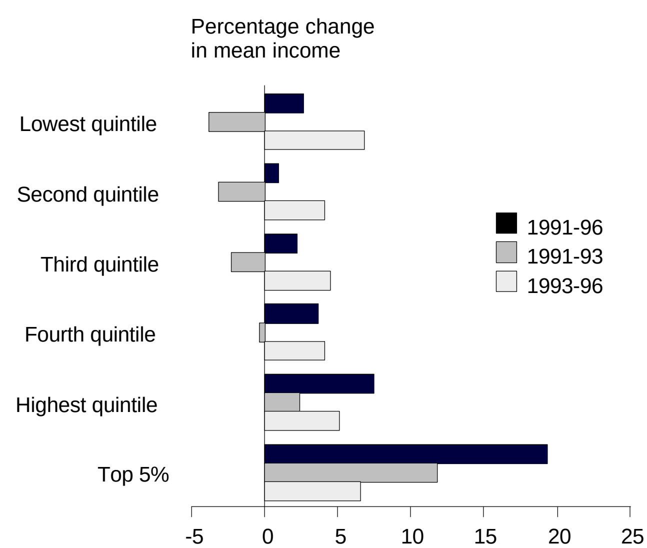
- Low income—Up to $14,768
- Low-middle income—$14,769 to $27,760
- Middle income—$27,761 to $44,006
- Upper-middle income—$44,007 to $68,015
- High income—Above $68,015

These household income figures represent the total annual amount of cash income of all members residing within a single housing unit. Cash income includes wages and salaries, self-employment income, interest, dividends, government cash welfare, and pensions.

Very different income profiles were created during the two phases of the recovery. During 1991 to 1993, the four lower income quintiles showed slight income *losses* (-0.3 to -3.8 percent). Even the highest quintile showed only a modest 2.4-percent increase in income. Only the top 5 percent of the population benefitted substantially, with an almost 12-percent increase over the 3-year period.

Interestingly, during the expansion, the lowest and the highest income groups experienced the largest income changes. The top 5-percent income group enjoyed an overall increase of 19.3 percent over the 6-year period, much of which came from the large increase during 1992 to 1993 (9.6 percent). The lowest income group experienced the largest losses during 1991 to 1993 (-3.8 percent) and the largest gains during the 1993 to 1996 recovery (6.8 percent). The middle quintiles, on the other hand, experienced more moderate results each year, with gains and losses of roughly 1 percent annually (fig. 1).

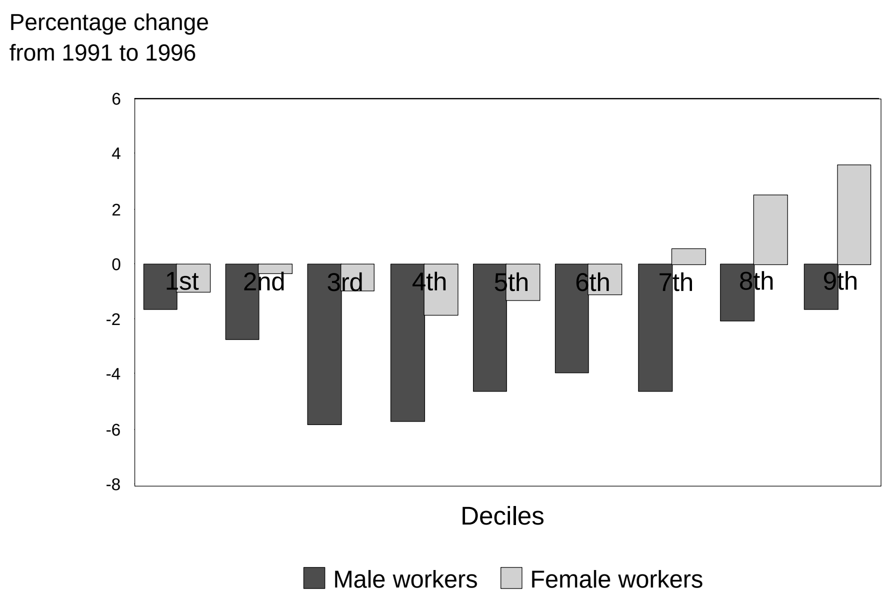
Figure 1. Changes in household income by quintile, 1991-96, 1991-93, and 1993-96



Low-Income Households

Wages earned by low-income households declined during the current expansion. Between 1991 and 1996, both men and women in the lower deciles of the wage distribution experienced declines in real wages (fig. 2). The low- and low-middle income groups include a large percentage of people who are unemployed, on welfare, or receive food stamps. The effect of wage stagnation on these two quintiles can be seen in the large number of people receiving food stamps (25.5 million) and those living below the poverty line (36.5 million). Low-income individuals who receive welfare payments—which are not indexed to inflation—saw their buying power erode substantially during the recovery. Between 1991 and 1995, average monthly benefits per family declined 13.1 percent in real 1995 dollars.

Figure 2. Change in hourly wages for men and women, by wage deciles, 1991 to 1996



The one bright spot for the low-income group is the decline in unemployment. So many new jobs were created in the current expansion that the number of people on welfare began declining even before the implementation of the welfare reform measures. Since 1991, unemployment has continued to decline steadily, reaching the lowest levels in more than a generation. Indeed, higher employment levels and an increase in the average number of hours worked are the primary reasons for the net gain in income, despite stagnating wages, by the low-income group.

High-Income Households

For the highest income quintile, household income in 1996 started at $68,015, and the mean was $115,514. Working men in this group were concentrated in the top 10 percent of earners; working women, the top 20 percent of women earners. Most of the members of this income group worked in highly paid occupations: such as law; medicine; software-systems engineering; and industries such as finance, computers, and communications. Income gains in the 1990's expansion were asset- and skill-intensive; the gains were oriented towards wider economic opportunities to women. This income group was well equipped to benefit from the expansion and did so.

The top 5 percent of households with the highest income fall within this quintile. In 1996, the lower limit of the top 5 percent started at $119,540 and had a mean income of $201,220. In 1995, the median net worth for the top 5 percent was about $500,000. For those in the lower 15 percent of the high-income quintile, the median net worth was about $250,000. Median stock holdings were about $50,000 for the low end and about $100,000 for the high end. Assets and stock holdings at this level accumulate significant amounts of income, which may be used to increase current consumption or saved for retirement and other uses. Moreover, the return on stock holdings has been excellent in the 1990's. Between March 1, 1991, and December 1, 1997, the Standard and Poor's 500 Average rose 1.5 times, and the Dow Jones Industrial Average rose 2.7 times. This rise in asset value is likely to widen the gap at retirement time between income groups that accumulated stock-based savings in the 1990's and those that did not.

Comparison With Other Expansions

The 1990's recovery is the second weakest post World War II recovery in terms of per capita GDP (Gross Domestic Product) growth, posting a

$100.09 average quarterly increase (through the 4th quarter of 1996). Averages ranged from $91.75 to $176.08 for the five other recoveries. Equally telling: the income for individuals in four of the five income groups did not recover to the 1989 level (the peak year of the 1980's expansion), despite 6 years of recovery; the exception was the high-income group.

Conclusion

Unequal distribution of gains in income during an economic expansion is unwelcome news. A widening income gap exacerbates the economic conditions of lower income groups, limits opportunities for upward mobility, and makes the American dream an increasingly elusive concept for most Americans. This paper shows that policies that will help equalize income gains or boost the income of poorer groups are highly desirable.

The paper concludes that Congress, the Administration, and the Federal Reserve should pursue ways of boosting wages and closing the income gap. Three broad recommendations emerge.

- Policies that are proexpansionary but noninflationary should be maintained.
- Policies that shift income to, and create opportunities for, individuals without a high school education continue to be needed.
- Policies should be enacted to encourage the middle-income and low-middle income groups to save and invest.

Source: Klein, B.W., 1998, The 1990's Economic Expansion: Who Gained the Most? Working Paper Series, Joint Economic Committee Minority, United States Congress.

The Food-at-Home Budget: Changes Between 1980 and 1992

According to the recommendations from recent medical studies, to achieve better health, consumers need to lower their consumption of red meats and increase the amount of fiber and complex carbohydrates by eating more breads, rice, pasta, and fresh fruits and vegetables. Although data on per capita food consumption from the U.S. Department of Agriculture (USDA) suggest that some changes in dietary patterns have occurred, these figures rely on estimates of food disappearance and may not reflect accurately changes in actual food intake.

This study examined how nationwide food consumption patterns have changed and whether these patterns appear to be consistent with consumers' knowledge of nutrition. Data from the Diary portion of the 1980 and 1992 Consumer Expenditure Surveys (CE) were used to analyze differences over time for shares of total food spending for various demographic groups. An index was developed to account for the influence of price changes on shares and to estimate the change in quantities of specific foods consumed relative to all food consumed. CE data were also used to determine whether the probability of purchasing certain types of food has changed and to estimate income elasticities of selected food groups for different demographic groups. Demographic characteristics examined include the age of the reference person, family income level, race, and marital status of the reference person.

The Share Index

The CE provides expenditures on specific foods—not quantities purchased. Therefore, to determine whether food-purchasing habits have changed, researchers use an alternative approach to examine how the total food budget is allocated, incorporating price changes into the analysis. The share index compares shares over time after the Consumer Price Index (CPI) is used to adjust them. Price changes for specific food items can be compared with the change in overall food-at-home prices. If the share of total food expenditures for a particular food item in 1992 is different from the share in 1980, and if the difference cannot be accounted for by price changes alone, then, at least relative to total food purchased, the amount of the specific food item purchased must have changed over time.

A share index with a value greater than 1.0 indicates the quantity purchased of the specific item has risen relative to the total quantity of food purchased; a share index with a value less than 1.0 indicates the quantity purchased has declined. Because the share index controls for price changes, it eliminates false interpretations that might arise from looking at changes in the share of total food at home, only. The share index does not measure absolute changes in quantities of food purchased.

For example: in 1980, the meat-poultry-fish-eggs category accounted for 34.4 percent of total expenditures for food at home but dropped to 26.4 percent in 1992 (table 1). During that period, prices for meat-poultry-fish-eggs rose 42.3 percent compared with 54.8 percent for all food at home.[1] If quantities purchased

[1]This means that meat-poultry-fish-eggs cost 1.423 times more in 1992 than they did in 1980 and all food at home, 1.548 times more.